

16/12/1997

Are we bottoming out?

Adlan Hercus

ONE week into November, world markets had recovered from their lows of the Black Monday 'celebration'. It took the October collapse in the Hong Kong market to make the rest of the world take our Asian crisis seriously. For the first couple of weeks of November, regional markets continued to pay close attention to Hong Kong. We are all now aware that our KLSE CI has landed in the 500 level, a far cry from the high of 750.53 at the beginning of the month. Throughout the month, and even before, most articles on the stock market would talk about a bottom having been reached, yes, even at the 700 level. This article will look at what happened in November and examine the possibility that a bottom has been reached at these current levels.

The month started off with potential. A rise in the Hang Seng and our strengthening Ringgit contributed to our market rising in the first couple of days. The Ringgit strengthened from 3.4140 to 3.2020 on the first day and remained steady at around the 3.30 level for what would be the next couple of weeks. Our KLSE CI opened at 672.26 for the month and reached the month's high the next day at 750.53. The futures opened at 665.0 and like the cash, it also reached its high of 757.0 the next day. The cash and futures moved sideways for the remainder of the week and met with selling pressure on Friday (7.11.97) because of the sell-off on regional bourses, sparked by speculative attacks on the Korean Won. The attack also raised concerns over Hong Kong's ability to maintain the peg between its currency and the US Dollar.

The Ringgit traded sideways during the second week between 3.26 to 3.34. This, coupled with the lack of any fresh leads, contributed to the stability of our market which also moved sideways. Our local market traded quite independently from regional bourses during this week and although it moved sideways, the futures maintained a discount to the cash as concerns over the weakening of regional currencies and interest rate hikes continued to plague the minds of investors.

The third week saw mild fluctuations. Haunted by the market's lack of approval for the UEM-Renong deal, the liquidation of margin accounts by banks and the weakening Ringgit, our KLSE CI broke the psychological 600 level to close at 560.09. This drop of 118 points represents a drop of 17.4% for the week. The sell-off on UEM and Renong, which began on Tuesday, sparked selling on other blue chip counters on fears of further 'corporate bailouts'. Telekom also fell on rumours that Renong's Time Telekom would be bought over by Telekom. Telekom denied this but the general lack of faith in the market dragged our KLSE CI and the futures down for the rest of the week.

Friday (21.11.97) was an extremely volatile day. The KLSE CI dropped to the month's low of 512.41 with the futures at its month's low of 518.0. At these levels, the futures held a premium to the cash. The premium could be attributed to short coverings or the fact that players were too nervous about these new lows to lead the cash closer to the 500 level.

The later part of that Friday saw both markets rebounding from their lows. The rally was attributed to rumours that the UEM-Renong deal may be called off. To add to the volatility, news came from South Korea that it was going to accept an IMF package. This led to the Korean Won strengthening substantially and its stock market also reacted bullishly to this news. The Ringgit ended the week at 3.4332 after reaching its high of

3.5552 on Thursday.

The collapse of the Japanese stock broking house Yamaichi Securities over the weekend led our markets into the last week of the month. The news of this collapse served only to remind our market of how fragile Asian economies were. Although this fact had already been hounding us for the last few months, the effect on our markets showed that it had more or less been discounted. Nothing seemed to affect our market considerably during this week and it is because of this that our market seems to be bottoming out.

After rallying on Thursday (27.11.97), the market lost ground the next day in reaction to our Prime Minister Datuk Seri Dr Mahathir Mohamad's statement on Malaysia resisting an IMF package. At this point, news of the restriction of local brokerage houses also filtered into the market. Again, it seemed that the news had been discounted because although the markets did retrace, it was not panic-selling that brought it down. The cash market closed at 545.44, down 17.9% from the previous month's close of 664.69. The November futures contract settled at 537.5.

So, why are we considering that the market is bottoming out here? As discussed above, it seems that the market reacts lethargically to both good and bad news. In the absence of such news, volumes on the cash market have been low. We suspect that our KLSE CI will continue to trade sideways over the first couple of weeks in December. We see the outlook as neutral to bearish. The possibility of our KLSE CI breaking the 500 level is still there and if this were to occur, there will be more selling of margin accounts. As such, a drop to below the 500 level will probably see the KLSE CI going down to 460 and it is here that we suspect a bottom may be reached. Other evidence that may indicate a bottom has already been reached would be if the cash manages to rally convincingly above the 600 level.

* Adlan Hercus is with Amanah Futures & Options.

(END)